

# CURRENTS

WESTERN CANADA'S ECONOMIC BULLETIN

CanadaWest  
FOUNDATION

VOL. 2010 | NO. 10

SERVICES INCLUDED?

RETAIL DETAILS

ALBERTA'S SOLAR SECTOR

## Monthly Highlights

In October, job creation was modest in the West, except for a 0.8% advance in Alberta.

The Alberta gain of 17,000 new jobs in October was the most significant since September 2008. Meanwhile, job levels in BC and Manitoba edged up by 0.1% and 0.3% respectively. Employment in Saskatchewan declined for the second month in a row (-0.2%). Two years after the beginning of the 2008 recession, Alberta remains the only western province with no net job gain over this period. Additionally, both the BC and Alberta unemployment rates remain high compared to their pre-recession levels (see charts below).

Inflation was slightly up across the West in September, but remained below the national average. In BC and Alberta, higher prices of motor vehicles and meals in restaurants contributed the most to the overall inflation increases.

In August, retail sales were up 0.9% in Manitoba. This marked the 11<sup>th</sup> monthly increase for the province over the last year. Sales in both Alberta and Saskatchewan grew for the third consecutive month, as opposed to BC, where they declined for the third month in a row. Wholesale sales grew solidly across the West in August,

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
<b>Labour Markets</b>						
Employment (000s)	2,322	2,021	526	625	17,213	October
% change	0.1	0.8	-0.2	0.3	0.0	
Unemployment rate (%)	7.4	6.0	5.7	5.2	7.9	October
change in percentage points	-0.1	0.2	0.2	-0.1	-0.1	
Participation rate (%)	66.0	73.1	70.2	70.1	67.2	October
Average weekly earnings (\$)	825.39	1004.11	852.99	790.79	860.67	August
% change	-0.1	1.9	0.8	0.2	0.9	
<b>Inflation</b>						
Consumer Price Index (% change)*	1.6	0.9	1.2	0.5	1.9	September
<b>Economic Activity</b>						
Retail trade (\$M)	4,771	4,952	1,262	1,335	36,079	August
% change	-0.1	1.5	1.4	0.9	0.5	
Wholesale trade (\$M)	3,972	5,258	1,345	1,118	44,503	August
% change	0.5	2.2	2.0	3.8	1.2	
Manufacturing sales (\$M)	2,975	4,932	939	1,161	45,074	August
% change	-0.1	2.0	6.1	-4.4	2.0	

\* Compared to same month in previous year.

Unless otherwise noted, data are seasonally adjusted and percent change is from previous period.

Source: Statistics Canada.

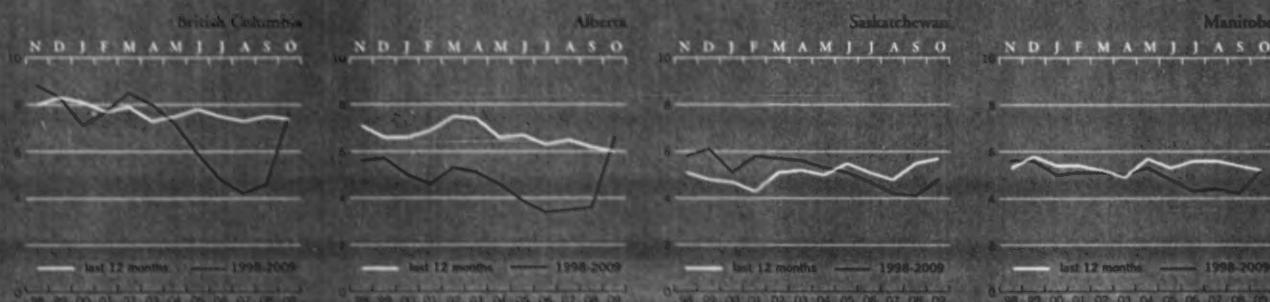
with the exception of BC, where the advance was more modest. Manufacturing sales jumped by 6.1% in Saskatchewan, the strongest advance among all provinces in August. A decline in the primary metals and machinery industries was behind the 4.4% drop in manufacturing sales, the steepest since January 2009.

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## UNEMPLOYMENT RATE (%)



## Monthly Feature

## Services Included?

We've heard it before: globalization is here to stay and Canada, including the West, must use its natural advantages to compete with the best. There are some areas where other countries have a definite advantage—just think of cheap labour in recently industrialized countries which is making our manufacturing sector leaders scratch their heads day in, day out.

However, our skilled workforce and high quality of life, among other factors, should make us natural at making headway in what we have become used to calling the knowledge economy, which to a large measure is part of the service sector.

Whenever we hear the words "service sector" we immediately think of low-paying jobs in retail or in the restaurant industry. Well think again. The service sector also includes high-paying, high-productivity areas such as finance, real estate, architecture and accounting.

Monitoring service sector performance is tricky. Data on how well those industries are doing are not easy to come by compared to more "physical" industries such as mining and manufacturing, where sales can be measured by standing by a warehouse door and exports can be derived directly from customs forms. It is quite a challenge for our friends at Statistics Canada to produce information on firms that conduct a large chunk of their business through meetings and emails. However, this much we know:

**Exports** – While service exports in the West have relatively kept in line with our exports of goods over the last ten years in terms of ups and downs, they have helped buffer the impact of the recession. Exports of services declined less than exports of goods (see chart).

**Sales** – Recently, sales growth indexes have become available for a selected group of 13 service industries. While coverage is limited to a fraction of the service sector, the data show that architectural and engineering services are high-growth industries in Manitoba and Saskatchewan, where sales jumped 63% and 97% respectively in the last three years. In Alberta, the growth leader was the waste collection industry (+34%) while accounting and bookkeeping (+33%) came on top in BC.

Service industries are key to the West's long term economic prospects. As an example, we are becoming very good at extracting resources and also at making this extraction process cleaner. Exporting commodities creates prosperity, but we also have the chance to capture growth opportunities by exporting our knowledge and expertise in resource extraction by providing training to foreigners here in the West or by sending our specialists (or our intellectual property) abroad.

Better service sector statistics will assist policy-makers to make evidence-based decisions that help our economy grow. This need appears especially acute when considering how much catching-up data about services has to do compared to more traditional sectors. Currently, it is easier to find information about Canada's leather goods production than about any of our high-potential service industries.

As governments ponder where to cut their spending to bring public finances back under control, here is hoping that the production of information about service industries will not only be sheltered, but actually enhanced.

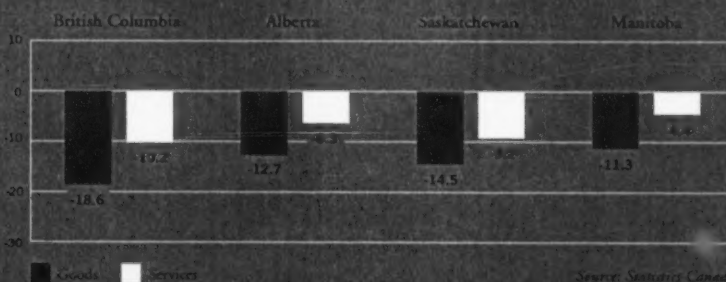
65%

of the West's GDP comes from services.

11%

of the West's exports to other countries are services.

EXPORTS TO OTHER COUNTRIES, CHAINED (2002) DOLLARS – PERCENT GROWTH FROM 2007 TO 2009



## DID YOU KNOW?

In 1976, 68% of jobs in the West were in the service sector. This percentage is now 76%.

Based on jobs, the two largest service industries in the West are health care and social assistance (16% of service jobs) and retail trade (also 16% of service jobs).

Based on GDP, the largest service industry in the West is the financial sector at 28% of total services. This figure includes the theoretical "industry" represented by homeowners living in their house. Excluding this amount, the percentage for the financial sector is still the largest service industry at 15%.

Since the beginning of the recession, the pace of service-sector job creation has outperformed that of the goods-producing sector in all western provinces except Saskatchewan.

## BEHIND THE NUMBERS

One of the main components of the past recession in Canada was the decline in consumer spending.

This reflected lower consumer confidence and growing household indebtedness. As a result, national retail sales dropped at the end of 2008, inched back up to their pre-recession levels over the course of 2009, but have not picked up significantly since then, gaining barely 0.1% from their pre-recession level.

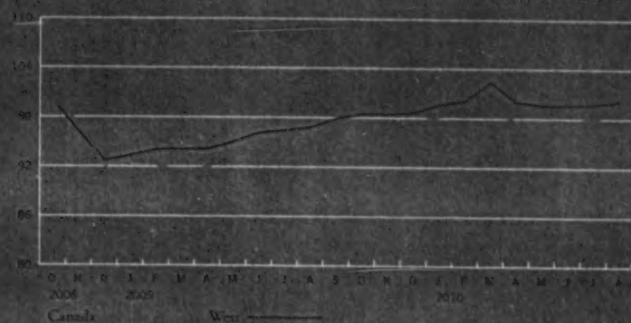
In the West, the decline was steeper than the national average: sales in the region are currently 1.3% below what they were prior to the downturn. In Alberta, retail sales are quite low compared to two years ago (-4.1%). Meanwhile, BC and Saskatchewan have barely made up for their recession losses (-0.5% and +0.3% respectively). For each of those three provinces, lower sales by gasoline stations are holding overall sales back. On the other hand, Manitoba retailers made significant gains following their turnaround, with sales up 6.1%, thanks mainly to auto dealers.

# -1.3%

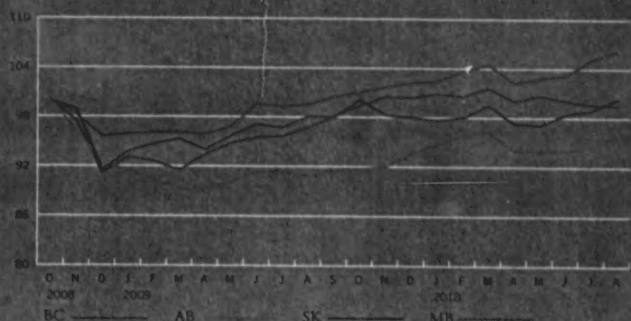
Retail sales in the West compared to before the recession



RETAIL SALES SINCE RECESSION START,  
SEASONALLY ADJUSTED (INDEXED, OCT 2008 = 100)



RETAIL SALES SINCE RECESSION START,  
SEASONALLY ADJUSTED (INDEXED, OCT 2008 = 100)



Source: Statistics Canada and Canada West Foundation

## Energy Focus: Alberta

### Solar Energy

Solar energy is one of the most untapped sources of energy in Alberta. The province is blessed with clear skies (312 sunny days per year, compared with the national average of 272, according to Environment Canada) and wide open spaces providing direct access to sunlight. This improves the business case for solar energy as a choice for residential or industrial application.

Federal and municipal rebate programs are in place to make it easier for users to absorb the steep initial cost of solar technology (the return-on-investment period for a residential solar installation typically lasts from 13 to 15 years).

One of Alberta's solar energy showcases is the Drake Landing community in Okotoks, just south of Calgary. This sustainable residential development was completed in 2007. Using solar panels mounted on garage roofs, its 52 single-detached homes receive 90 per cent of their heating and 60 per cent of their hot water from solar energy.



Solar panels on the roof of each home and garage in Drake Landing, Okotoks, AB.

Photo: National Geographic Canada



## OPINION

BY JACQUES MARCIL, SENIOR ECONOMIST

### Diversification: Are We Aiming at the Proper Target?



In economics, a good story is often the best way to explain a concept. This is the case with the "Iowa Car Crop". The story goes like this. There are two ways to make cars in the US: the Detroit way and the Iowa way. We all know about the Detroit way. The Iowa way consists in growing wheat, then exporting it

to Japan in return for cars. This tale was put together by American economics textbook author David Friedman to illustrate that countries should concentrate their production in niche areas and use international trade to get what they don't—or can't—produce locally.

This story is not recent, but the other day this thought dawned on me: doesn't this concentration and niche business go directly against a mantra we often hear repeated in the West, and that is, the importance of economic diversification? Diversification is a long word for "not having all your eggs in the same basket" (another story with a great track record). With each of our provincial economies heavily based on natural resources—except Manitoba, to a degree—we have long ago adopted the attitude that having a more diversified economy where non-resource industries such as manufacturing and services represent an increasingly larger share of the pie will reduce our exposure to the ups and downs of commodity prices.

Let us go back to the car crop story for a second. Why are niche areas such a good thing? The answer goes back to the economic concept of comparative advantage, which says that if countries specialize their production in the areas they are good at and trade between each other to get what else they need, more wealth is created than if everyone tries to become Jacks-of-all-trades. I am taking a few shortcuts that would make my university professors blush here, but you get the point. Translated into day-to-day language, this concept says that specialization is a good thing. And with specialization—or clusters, or centres of excellence, no matter what moniker we use—usually comes the Holy Grail of economic policy: higher productivity, and therefore higher living standards.

Does this mean that we are forfeiting our long-term economic prospects if we try to diversify our economies? Well, it depends. If we simply throw money at non-viable industrial sectors through various forms of handouts simply because they are not resource-based ones, then diversification is the wrong policy to pursue. If, however, we provide start-up capital for any type of small business and let the laws of the market decide which ones make it through the early growth pains, we're simply providing the conditions for new niches to appear on their own.

I think that governments should make it their task to support productivity gains across all industrial sectors by creating the right conditions, such as a competitive investment environment, attractiveness for skilled immigrants, a top-notch and well-funded education system and an ambitious research agenda. If productivity gains are indeed achieved and allow the West, as a side benefit, to specialize away from resources, then great. In the end, higher productivity matters more to our region than the pursuit of diversification for the sake of diversification.

In guise of post-scriptum, consider the following. The West has now entered a brave new world where *market* diversification is gradually becoming more important than *industry* diversification. The US economy is taking a long time to recover from the past recession, especially when compared to the booming Asian economies. The impact of slow recovery in the US on our exports is compounded by our dollar being nearly at par with the greenback. We cannot do anything about our geographic location, and as a result, the West is pretty much joined at the hip with the US—just think of the north south alignment of our roads, pipelines and power transmission lines. So Canadian policy makers interested in diversification should turn their attention to opening and developing new export markets that will allow us to eventually have our eggs in "more than one market."

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